measures be adjusted. OMB personnel report that beginning in FY03 all departments can adjust their program strategy outputs based on funding levels.

In addition, some original performance measures may not be appropriate for the funding level. The Department of Family and Community Services' (DFCS) Middle School Cluster Initiative has required output measures such as, "Number of Elementary School Students enrolling in activities funded through MSCI." According to the initiative's FY02 performance measures a required 5,000 elementary school students should enroll. DFCS reported that 8,607 student had enrolled for FY02. If this program is over-funded based on the performance measures it is unlikely that the department would request that its performance measures be increased or a lower level of funding be provided.

The actual performance measures may be unreliable. Actual performance measures provided by DFCS for the Middle School Cluster Initiative contain a note that the final numbers reported "may not be unduplicated totals." However, the required level of performance clearly states that these numbers should reflect unduplicated enrollment. If actual performance measure results are unreliable it is difficult to determine the success of the program.

RECOMMENDATION

The Administration should review appropriations and mandated service levels to determine if programs are appropriately funded for the expected level of service. Performance measures should be an integral part of the City's budgeting process. Any legislation that alters budget appropriations, whether prepared by the Administration or the Council should include adjustments to the corresponding effected performance measures.

City departments should submit accurate data on their performance measures to the Administration. OMB should ensure that the data provide by the departments is reliable.

EXECUTIVE RESPONSE FROM THE CAO

"We concur with the recommendation that performance measures should be adjusted when appropriations are modified. OMB will continue to work with the departments in setting reasonable performance standards and in reviewing reported results for reasonableness. However, OMB does not have the necessary resources or training to ensure that reported results are reliable."

3. <u>THE CITY SHOULD MAINTAIN ACCURATE ENCUMBRANCES IN THE GENERAL LEDGER</u>

The City utilizes an encumbrance system to help prevent over-expenditures. An encumbrance can be viewed as an expected expenditure. The advantage of using encumbrances is to recognize funds that have been committed for a specific expenditure before the corresponding liability has been incurred. This would allow a City department to add actual expenditures and encumbrances and compare the total to the department's appropriations. The department can then determine it budget status.

An examination of the City's encumbrance procedures revealed a number of problems with the way encumbrances are currently recorded.

A. <u>Encumbrances Recorded In The General Ledger Should Be Accurate</u>

At June 30, 2002, the City's general ledger showed an encumbrance balance of \$4,995,612 for the General Fund. The Department of Finance and Administrative Services (DFAS) management made routine accrual adjustments of \$1,082,189. After further review by DFAS management, it was determined that \$3,829,505 of additional corrections were required leaving a final balance of \$83,918 in the General Fund.

We judgmentally selected a sample of 50 purchase orders that represented encumbrances from the General Fund. The DFAS interpretation of the encumbrance policy differed from the interpretation by Internal audit as it applies to three purchase orders. For example, one disputed encumbrance is for a contract to conduct a citizen satisfaction survey. The resulting data and report were to be completed and delivered by October 15,2002. Internal Audit interprets this to essentially be the purchase of goods in the form of the final report. As such, it would be appropriate to encumber the unspent portion of the contract. However, DFAS management removed the encumbrance because the City has an annual contract with the vendor for a citizen satisfaction survey. Therefore, the FY03 budget includes funds for one year of costs associated with the contract. If the FY02 encumbrance remained and was reappropriated, DFAS argues that there would be more than a one-year appropriation.

In addition, we judgmentally selected 30 purchase orders representing non General Fund encumbrances. One of these encumbrances appears to have been incorrectly removed. Another fourteen should not have been removed because the encumbrances were for project funds.

The City's Budget Ordinance, section 2-11-12 (B) ROA 1994 states, "The amount encumbered but not expended at the end of this fiscal year is appropriated to the

subsequent fiscal year without further action by the Council." When encumbrances are incorrectly removed, the City is at risk of inaccurate reappropriation in the subsequent fiscal year. The City could be paying the previous year's expenditure commitments with the current year's appropriations.

DFAS management has developed a standard encumbrance policy. DFAS management reports that this policy has been submitted to the CFO for approval. However, as of the date of fieldwork the encumbrance policy has not been formally adopted by the Administration.

B. The City Should Utilize The Encumbrance System In Order To Ensure Budget Compliance

In the past, encumbrances were carried forward for years. It appears that some fiscal managers lack a clear understanding of how encumbrances should be used. Prior to FY03 the City did not provide any guidance or training relating to encumbrances. The City's general ledger had a reserved for encumbrances balance of \$110,747,116 at June 30, 2002 for all funds. However, DFAS management had to manually correct \$32,733,204 of encumbrances. As noted above, eleven programs totaling \$2,209,465 were overspent at year end. If encumbrances had been properly recorded and relied on by City managers, some program over-expenditures might have been avoided.

RECOMMENDATION

The Administration should work to develop standards for appropriate encumbrances and submit a definition of encumbrances to the Council for amendment to the City budget ordinance. All department fiscal personnel should be trained on how to properly record and maintain encumbrances throughout the fiscal year. DFAS should develop monthly reports that include encumbrances in addition to expenditures to assist in determining budget status. The Administration should adopt the standard encumbrance policy submitted by DFAS.

EXECUTIVE RESPONSE FROM CAO

"We concur with the recommendations. Administrative Instruction No. 3-13 <u>Encumbrance Reporting</u> issued January 14, 2003, established a standard encumbrance policy. Training with the departments has been occurring since February 2002. Effective with the January 31, 2003 month-end, encumbrances will be included on the standard financial reports."

4. <u>THE ADMINISTRATION SHOULD ENSURE THAT FINANCIAL PERSONNEL</u> ARE QUALIFIED

Department fiscal managers are charged with the responsibility to provide sound advice to ensure that each program spends within appropriated budgets. Failure to provide sound advice and take appropriate steps could result in disciplinary action to the fiscal manager. Administrative Instruction No. 2-20 states, "Employees such as fiscal managers and human resource coordinators who may lack direct control, but serve in a direct advisory capacity for expenditure decisions, shall provide the best information available. If the manager fails to act in a financially prudent manner upon receipt of the advice, the fiscal manager and/or human resource coordinator shall report to the manager's supervisor. This process will be repeated at ascending levels of management until the financial advice is heeded. If necessary, after following this procedure, if he/she still believes corrections have not been made in line with the advice, he/she should report directly to the Chief Financial Officer.... Failure on the part of the Program Strategy Manager to monitor and control expenses within the appropriated budget will be subject to disciplinary action as defined in the Personnel Rules and Regulations. Disciplinary action may include written reprimand, suspension, demotion or dismissal."

As part of the mid-year cleanup resolution, certain positions were eliminated and the personnel who filled those positions were reassigned to perform other functions. One employee was moved from a management level marketing position in the Transit Department to a Fiscal Manager position. The required education and experience for this type of position typically include a Bachelor's degree, from an accredited college or university, with major course work in accounting, business administration or related field, plus six years of fiscal management experience to include four years direct supervisory experience in a management or administrative capacity. Although some training has been offered to this employee, it does not appear that this employee has adequate training and experience to effectively perform the duties the position requires. When the employee does not posses the required education and experience and adequate training is not provided, it is unlikely that the employee will be able to comply with the requirements of the Administrative Instruction above. In the Fiscal Year 2001 Year-end Close Audit (audit 02-129B), the Office of Internal Audit recommended, "The CAO should ensure that the department personnel are properly trained in governmental accounting and the City budget process." The Administration did not offer a response to this specific recommendation in FY2001.

RECOMMENDATION

The CAO should ensure that all employees have adequate qualifications in order to effectively perform their assigned job functions. In addition, the CAO should ensure that all fiscal managers receive proper, continuous training.

EXECUTIVE RESPONSE FROM THE CAO

"Meeting minimum qualifications is the standard applied when qualifying individuals for City positions whether as an applicant or a placement. The Voluntary Transfer Program implemented by amendment of the Merit System Ordinance (MSO) in May of 2002, allowed employees identified for layoff the opportunity to identify positions in which they were interested. If they met the minimum qualifications, they were placed accordingly. Minimum qualifications, however, are not always indicative of the entire skill set required for satisfactory job performance.

"The Human Resources Department (HRD) acknowledges that proper training is extremely important to both the success of the City and the employee. Given the existing fiscal and personnel constraints, there is limited ability to provide all of the training that is needed. HRD is investigating ways to provide training utilizing various methods of delivery and collaborative approaches."

AUDITOR'S COMMENT

The employee cited above stated that she did not request to be placed in this position but had identified other non-fiscal position that she would be better qualified for. The minimum qualifications for the fiscal manager position are a bachelor's degree from an accredited college or university, with major course work in accounting, business administration or related field plus six years fiscal management experience. Although this employee has a Master's Degree of Business Administration, it is with the marketing focus. This employee does not have the required fiscal management experience and therefore does not meet the minimum qualifications for a fiscal manager position.

5. <u>THE ADMINISTRATION SHOULD PERFORM A DETAILED REVIEW OF THE</u> CITY'S VEHICLE FLEET

Capital project funds account for the purchase, construction, or capital lease of major general fixed assets. Resources for capital projects result from transfers received from various City departments. The City maintains a Vehicle/Equipment Replacement Capital Projects Fund. This fund was established in fiscal year 1993 and provides for replacement of computers and vehicles for the City.

In the fiscal year ended June 30, 1999 the Vehicle/Equipment Replacement Fund had unreserved/undesignated fund balance of \$4,551,745. Due to lack of funding in fiscal years 2000 thru 2002, the unreserved/undesignated fund balance has been reduced to \$604,826 at June 30, 2002. There were no transfers made from other funds into the Vehicle/Equipment Replacement Fund in FY02.

The City's Fleet Manager reported that as of November 15, 2002 an estimated 862 non law-enforcement vehicles totaling \$31,931,500 were in need of replacement. Although the City has undergone budget cuts and personnel reduction that may reduce the need for vehicles, with replacement needs this high it is likely that the City will incur increased repair and maintenance costs associated with the dilapidated fleet until adequate vehicle replacement funding is provided. OMB management reports that \$1 million has been appropriated for vehicle replacement in FY03. Other options to improve the condition of the City's fleet are being considered by the Administration and the Council. However, it does not appear that there is any plan in place to replace the entire dilapidated fleet.

When City employees need to travel locally for business they typically use an assigned City vehicle or use their personal automobile and are reimbursed for mileage. The City of Albuquerque Travel Regulations state "...the use of a privately owned automobile is authorized as advantageous to the City for the performance of official travel, reimbursement to the traveler shall be at the mileage rate of 36.5 cents per mile...." We performed an examination of the non public-safety passenger vehicles owned by the City to determine the actual costs incurred by the City for each mile driven. We noted approximately 206 of the City's non public-safety passenger vehicles cost more than \$.37 per mile to operate and that many of these vehicles are underutilized. As a result, it appears that it would be more cost effective to allow employees to use their personal vehicles and reimburse them for mileage instead of providing a City owned vehicle.

An examination of the City's rules and regulations reveals that there is not a standard criteria that determines when an employee's duties justify an assigned City vehicle. Another option to reduce the City's replacement needs is to eliminate individual departments owning vehicles which are assigned to some employees. The City could establish a Citywide motor pool. When an employee requires an automobile to perform his or her duties an automobile can be checked out for short-term use from a centralized location.

RECOMMENDATION

The City Administration should continue to search for options to ensure that the City's vehicle fleet is in good condition. One option is to perform a Citywide evaluation of all vehicles. This evaluation should be performed by the Administration to determine each department's vehicle needs. Some vehicles may be eliminated and the departments could encourage City employees to use

their personal vehicles with a mileage reimbursement from the City. The City should establish a standard policy that assists management in determining when an employee is assigned a City vehicle versus checking out a vehicle from a Citywide motor pool for short-term use.

EXECUTIVE RESPONSE FROM THE CAO

"We concur with the recommendations. In conjunction with the FY04 budget preparation cycle, an initial analysis of fleet replacement needs has been completed. Exclusive of special vehicles in the Transit and Solid Waste Departments, the city's fleet totals 2,950. Of this total, 38% (1,123) are police vehicles. In the balance of the fleet, 154 vehicles are used less than 25% of the class average utilization and an additional 164 are used less than 50% of the class average utilization. We will be focusing on these under-utilized vehicles in considering options to ensure the composition of the fleet meets the Department's needs. We will be working separately with APD to address their vehicle needs. Finally, we will review the City's rules and regulations and examine alternatives such as the use of motor pools and mileage reimbursements."

CONCLUSION

By implementing the above recommendations, the City can further improve its administration and control over the budget process.

Senior Auditor	
REVIEWED and APPROVED:	APPROVED FOR PUBLICATION:
Debra D. Yoshimura, CPA, CIA Internal Audit Officer	Chairman, Audit Committee

We appreciate the cooperation of City staff during the audit.